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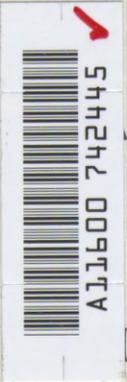
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EFFICIENT USE OF CIVIL SERVICE COMMISSION REVOLVING FUND

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HEARING BEFORE THE SUBCOMMITTEE ON EMPLOYMENT AND CIVIL SERVICE OF THE COMMITTEE ON OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS
SECOND SESSION

ON

H.R. 16558

A BILL TO AMEND TITLE 5, UNITED STATES CODE, TO PROMOTE THE EFFICIENT AND EFFECTIVE USE OF THE REVOLVING FUND OF THE CIVIL SERVICE COMMISSION IN CONNECTION WITH FUNCTIONS AND SERVICES OF THE COMMISSION, TO FACILITATE IMPROVEMENTS IN PROGRAM ADMINISTRATION AND FINANCIAL MANAGEMENT, AND FOR OTHER PURPOSES

MAY 22, 1968

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EFFICIENT USE OF CIVIL SERVICE COMMISSION REVOLVING FUND

WEDNESDAY, MAY 22, 1968

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MANPOWER AND CIVIL SERVICE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met at 10 a.m., in room B-374(c), Rayburn House Office Building, Hon. David N. Henderson (chairman of the subcommittee) presiding.

(The bill under consideration, H.R. 16558; the report of the Civil Service Commission with attached statement of purpose and justification; and the report of the General Accounting Office are as follows:)

[H.R. 16558, 90th Cong., second sess.]

A BILL To amend title 5, United States Code, to promote the efficient and effective use of the revolving fund of the Civil Service Commission in connection with functions and services of the Commission, to facilitate improvements in program administration and financial management, and for other purposes:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1304(e) of title 5, United States Code, is amended to read as follows:

“(e) A revolving fund is available to the Commission, without fiscal year limitation, for financing—

“(1) investigations, training, and such other functions as the Commission is authorized or required to perform on a reimbursable basis; and

“(2) such other services performed by the Commission involving internal programs, procedures, and practices of the Commission in connection with administration, operation, financial and accounting control, amortization and carryover of costs, relationships of operational costs to income, and other internal matters, as the Commission determines may be performed more advantageously through financing by the fund.

However, the functions and services which may be financed in any fiscal year by the fund are restricted to those functions and services which are covered by the budget estimates submitted to the Congress for that fiscal year. The capital of the fund consists of the aggregate of—

“(A) appropriations made to provide capital for the fund; and

“(B) the sum of the fair and reasonable value of such supplies, equipment, and other assets as the Commission from time to time transfers to the fund (including the amount of the unexpended balances of appropriations or funds relating to activities the financing of which is transferred to the fund) less the amount of related liabilities, the amount of unpaid obligations, and the value of accrued annual leave of employees, which are attributable to the activities the financing of which is transferred to the fund.

The fund shall be credited with—

“(i) advances and reimbursements from available funds of the Commission or other agencies, or from other sources, for those services and supplies provided at rates estimated by the Commission as adequate to recover expenses of operation (including provision for accrued annual leave of employees and depreciation of equipment); and

“(ii) receipts from sales or exchanges of property, and payments for loss of or damage to property, accounted for under the fund.

Any unobligated and unexpended balances in the fund which the Commission determines to be in excess of amounts needed for operations financed by the fund shall be deposited in the Treasury of the United States as miscellaneous receipts.”

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 4, 1968.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: The Civil Service Commission is submitting with this letter for the consideration of the Congress, a legislative proposal to permit expanded use of the revolving fund under section 1304(e) of title 5, United States Code. There are enclosed a draft legislative proposal, section analysis and a statement of purpose and justification.

Under the law use of the revolving fund is restricted to the Reimbursable Investigations program. This legislative proposal would permit the Commission to use the revolving fund for all reimbursable activities as well as for certain in-house common services. The new legislation will also correct deficiencies in the existing unmoded statute and facilitate improvements in program administration and financial management.

The enclosed legislative proposal would replace the existing statute that established our "Revolving Fund, Investigations." This proposed change is necessitated by an increase in number and variety of activities that are financed by reimbursement of funds from other Federal agencies. As early as two years ago the Bureau of the Budget approved the concept of revolving fund financing for all of the Commission's reimbursable activities in lieu of advances and reimbursements to the Salaries and Expenses appropriation. However, implementation in the Commission was deferred pending a general overhaul of our entire accounting system. Now that the latter is being accomplished and installation of our new accounting system is scheduled for completion on July 1, 1968, enactment of the proposed legislation is urged prior to this time.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there would be no objection to submission of this legislation to the Congress.

A similar letter is being sent to the President of the Senate.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

Enclosures.

A BILL To amend the provisions of section 1304 of title 5, United States Code, that relate to the revolving fund for the Civil Service Commission

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1304(e) of title 5, United States Code, is amended to read:

"(e) A revolving fund is available to the Commission without fiscal year limitation for financing investigations, training, and such other functions as are authorized or required to be performed by the Commission on a reimbursable basis and such other services as the Commission determines may be performed more advantageously through the fund. However, functions and services financed by the fund are restricted to those reflected in the budget estimates submitted to Congress. The capital of the fund consists of appropriations made for that purpose and of the fair and reasonable value of such supplies, equipment, and other assets (including unexpended balances of appropriations or funds relating to the activities transferred to fund) as the Commission from time to time transfers to the fund, less the related liabilities, unpaid obligations, and accrued annual leave of employees, transferred to the activities financed by the fund. The fund shall be credited with (1) advances and reimbursements from available funds of the Commission or other Federal agencies, or from other sources, for the services and supplies provided at rates estimated by the Commission to be adequate to recover expenses of operation, including provision for accrued annual leave and depreciation of equipment, and (2) receipts from sales or exchanges of property and payments for loss or damage to property accounted for under the fund. Any unobligated and unexpended balances in the fund the Commission determines in excess of amounts needed for its operations shall be deposited in the Treasury of the United States as miscellaneous receipts."

SECTION ANALYSIS

The proposed substitute new text for section 1304(e) of title 5 United States Code if enacted will: (1) Permit use of the revolving fund for all reimbursable activities of the Commission as well as for certain in-house common services; (2) correct deficiencies in the existing outmoded statute which was enacted 15 years ago and (3) facilitate improvements in program administration and financial management with the installation of a new accounting system.

STATEMENT OF PURPOSE AND JUSTIFICATION OF A DRAFT LEGISLATIVE PROPOSAL TO SUBSTITUTE NEW TEXT FOR SECTION 1304(e) OF TITLE 5, UNITED STATES CODE

PURPOSE

The purpose of this legislation is to permit use of the revolving fund for all reimbursable activities of the Commission, as well as for certain in-house common services; correct deficiencies in the existing outmoded statute which was enacted 15 years ago and facilitate improvements in program administration and financial management with the installation of our new accounting system.

JUSTIFICATION

Over the past 15 years, the Commission has become involved in an increasing number and variety of activities that are financed by reimbursement of funds from other Federal agencies. Our annual volume of reimbursable work now exceeds \$20 million including full field investigations, reimbursable training courses, examining Peace Corps applicants, NAC cases for the Library of Congress, Executive Seminar Centers, the Vision of Man exhibit, cost sharing with NASA for relocation site expenses, and literally dozens of other individual agreements with agencies for reimbursable services performed by various Commission offices. As a result, our accounting work, budgeting and control over funds has become much more difficult, our financial structure is unduly complex, and efficient program administration is beginning to suffer. Revolving fund financing of all reimbursable activities along with other revisions to our accounting system will correct these deficiencies.

The Commission activities proposed to be financed through the new revolving fund are as follows:

<i>Activity</i>	<i>Estimated fiscal year 1969 annual volume of business</i>
Reimbursable full field investigations-----	\$16, 000, 000
Reimbursable training courses-----	3, 800, 000
Executive seminar centers and institute, funded by agencies using the facilities-----	1, 700, 000
Miscellaneous services performed for other agencies on a reimbursable basis-----	700, 000
In-house ADP and printing services currently financed by 3 separate funds-----	1, 000, 000
Total annual volume of business-----	23, 200, 000

It is significant to note that in every one of the foregoing activities, the customer (using agency) receives appropriations and pays for the services provided. Although only full field investigations are currently authorized to be financed through the existing revolving fund, the advantages of this type of financing should also be made available to other reimbursable programs of the Commission. These advantages are primarily:

- (1) Availability of capital for equipment purchases with depreciation as a part of recoverable costs over a period of years.
- (2) Amortization of lead-time costs over a reasonable period of time.
- (3) Carry over of work-in-process costs into subsequent fiscal year.
- (4) Improvements in internal accounting and administration of programs including the relating of costs of operation to income.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., May 10, 1968.

Hon. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives.*

DEAR MR. CHAIRMAN: This is in reference to your letters dated March 12, and April 11, 1968, requesting our comments on a draft of a proposed bill and on H.R. 16558, respectively.

The proposed legislation would replace the presently authorized revolving fund of \$4,000,000, by authorizing a Civil Service Commission revolving fund for financing, in addition to investigations as at present, training and such other functions as are authorized or required to be performed by the Commission on a reimbursable basis, and such other services as the Commission determines may be performed more advantageously through the fund. According to the Commission's statement of purpose and justification accompanying the draft bill, the Commission proposes to use the revolving fund for financing all reimbursable activities, as well as its in-house automatic data processing and printing services activities. It is the Commission's view that the use of the revolving fund for financing these activities will facilitate improvements in program administration and financial management.

Activities, other than personnel security investigations, performed by the Commission for other Federal agencies on a reimbursable basis are currently financed by other Federal agencies either through reimbursements to the Commission's salaries and expenses appropriation or advances to consolidated working funds. The in-house automatic data processing and printing services are currently financed by the salary and expenses appropriation which is reimbursed by the funds of the activities benefiting from the services.

The proposed legislation would provide that any unobligated and unexpended balances in the revolving fund that the Commission determines to be in excess of amounts needed for its operations shall be deposited in the Treasury of the United States as miscellaneous receipts. This provision would replace the current provision of 5 U.S.C. 1304(e), which requires that any surplus accruing to the revolving fund in any fiscal year shall be paid into the general fund of the Treasury as miscellaneous receipts during the following fiscal year, except that any such surplus may be applied first to restore any impairment of the capital of the revolving fund by reason of variations between the rates charged for investigative services, and the amount subsequently determined by the Commission to be the cost for performing the services.

It would appear, on the basis of the proposed provision in the draft and bill relating to the deposit of excess funds in the general fund of the Treasury as miscellaneous receipts, that the balances in the fund which the Commission determines to be needed for its operations could be retained in the revolving fund, at the discretion of the Commission, and used for any authorized purpose, such as purchases of additional equipment, without specific congressional approval.

The question of whether the reimbursable functions of the Civil Service Commission should be financed by a revolving fund, as proposed, is a matter of policy for determination by the Congress. In this connection, an expanding of the present Civil Service Commission revolving fund to include training programs was one of the recommendations of the Committee on Government Operations in reporting on "Submission of Agency Accounting Systems for GAO Approval" (page 4, item 7, House Report 1159, 90th Congress, 2d session, March 5, 1968).

The proposed revolving fund may be used for financing both interagency and in-house activities. In the event such proposal is favorably received, we believe it is important that safeguards be instituted to provide that each individual activity financed through the revolving fund be conducted generally at a break-even point over a reasonable period of time. Such a requirement would tend to preclude the situation where other agencies' funds might be used to defray the cost of the Commission's in-house operations financed under the revolving fund. This could be accomplished by substituting a comma for a period on line 14, page 2, of the draft bill, and adding the words: "and to the maximum extent feasible, each individual activity shall be conducted generally on an actual cost basis over a reasonable period of time."

As an added measure of congressional control over the various activities financed through the revolving fund, we also suggest that the Committee consider amending the bill to require that the Commission prepare a business-type budget providing full disclosure of the results of operations for the individual activities under the

revolving fund, and that such budget be transmitted to the Congress and considered in the manner prescribed by law for wholly owned Government corporations (sections 102, 103, 104 of the Government Corporation Control Act, 31 U.S.C. 847-849).

The incorporation of the above suggestions should enable the Congress to keep apprised of the type, extent, and total costs of the individual activities conducted by the Commission and should be useful in determining whether balances in excess of the amounts needed for the Commission's operations are being retained in the revolving fund.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

Mr. HENDERSON. The subcommittee will come to order.

We are meeting today to consider H.R. 16558, a bill introduced by the Honorable Lee H. Hamilton, a distinguished member of this subcommittee. The bill would permit the use of an existing revolving fund for a variety of other reimbursable services performed by the U.S. Civil Service Commission for other Federal agencies. The Civil Service Commission has furnished documentation advocating such expanded use of its revolving fund.

We will have Congressman Hamilton as our first witness this morning followed by Hon. John W. Macy, Jr., Chairman of the Civil Service Commission.

Mr. Hamilton, we will be happy to receive your testimony.

TESTIMONY OF HON. LEE H. HAMILTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. HAMILTON. I want to thank you, Mr. Chairman, for so promptly scheduling action on H.R. 16558, which I introduced on April 9, 1968. This bill is based on an official communication submitted by the Chairman of the U.S. Civil Service Commission as part of the President's legislative program.

The purpose of this legislation is to consolidate the fiscal control and accounting of funds for all reimbursable activities of the Civil Service Commission in the Commission's present revolving fund. The revolving fund is now available only with respect to the Commission's reimbursable investigations program.

When the present revolving fund was established by the Congress 15 years ago field personnel investigations conducted by the Commission for other departments and agencies represented the Commission's only continuing reimbursable function. During the ensuing period, however—because of new legislative programs—the Commission has been given the responsibility of performing additional services and functions for other departments and agencies on a reimbursable basis.

The most important of these additional responsibilities originated with the enactment of the Federal Employees Training Act of 1958, which was written in this committee. The Commission conducts extensive training courses to develop qualified officials and employees to carry on training programs in the departments and agencies, as well as certain "Executive Seminar Centers" and "Executive Seminar Institutes."

In summary, what H.R. 16558 would do would be to centralize the funding, the accounting, and the financial control for all of the Commission's reimbursable activities in the one revolving fund. This is in accordance with sound accounting principles and will simplify both the actual operations and the related fiscal procedures of the Commission.

It is very important that this legislation be enacted, if at all possible, before the end of the current fiscal year on June 30, 1968, so that it can be made fully effective for the next fiscal year. I am advised that all preparatory work has been done, and that the program will be made effective as planned once the bill has become law.

I believe that there is on each Member's desk this morning a copy of the official Civil Service Commission recommendation, along with the Commission's statement of purpose and justification. I know of no objection to the enactment of this legislation.

Mr. HENDERSON. The Chair asks unanimous consent that the Commission's recommendation and its statement of purpose and justification be printed in the record.

Mr. Hamilton, I have no questions. I will yield in a moment to Mr. Gross, but if he has no questions, you can come back on this side of the table without us waiving any of our rights to ask you questions.

Mr. GROSS. I have no questions, Mr. Chairman.

Mr. HENDERSON. Chairman Macy, we will be delighted to hear from you at this time. It is always a pleasure to have you before the subcommittee.

I might say it is rather unique that you would be asking for legislation for your own welfare and benefit rather than for the employees of agencies of the executive departments.

TESTIMONY OF JOHN W. MACY, JR., CHAIRMAN, CIVIL SERVICE COMMISSION, ACCOMPANIED BY DAVID F. WILLIAMS, DIRECTOR, BUREAU OF MANAGEMENT SERVICES, AND WILLIAM F. SPECK, ASSISTANT CHIEF, BUDGET AND FINANCE DIVISION

Mr. MACY. I feel unduly parochial for a change, pleading the case of the Civil Service Commission rather than the employment of the entire Federal Government.

I want to express my gratitude to you and Mr. Gross for providing this hearing, and I want to express my appreciation to Mr. Hamilton for introducing this legislation.

We are pleased to be here this morning to discuss H.R. 16558 which would authorize expanded use of the Commission's revolving fund for financing all reimbursable services performed by the Commission for other agencies of the Government as well as for certain in-house common services.

The revolving fund I refer to was authorized by Congress in 1952 for the specific purpose of financing full field investigations conducted by the Commission for other departments and agencies. Under the law, the revolving fund is reimbursed from available appropriations of those departments and agencies for the cost of the investigations made for them at rates determined by the Commission to be adequate to recover operating expenses.

Since 1952, however, the Commission in addition to the reimbursable investigations work, has become involved in an increasing number and variety of other activities, the costs of which are authorized or required by law to be reimbursed from the appropriations or funds of the agencies for whom we perform the service. For example, and as we have indicated to the Appropriations Committee, we are conducting examinations of Peace Corps applicants; making investigative name checks for the Library of Congress; conducting training courses both in Washington and in field offices attended by employees of almost every agency of Government; operating executive seminar centers in Kings Point, N.Y., and in Berkeley, Calif.; and we have literally dozens of other individual agreements with agencies for reimbursable services performed by various Commission offices. Our annual volume of reimbursable work now exceeds \$20 million, and as a result, our accounting, budgeting and control over funds has become much more difficult, our financial structure is unduly complex and efficient program administration is beginning to suffer.

Mr. HENDERSON. Mr. Chairman, could I ask you a question?

How much of your field investigations are made for the Post Office Department?

Mr. MACY. The Post Office Department conducts their own full field investigations as they determine—

Mr. HENDERSON. What about the examinations that are given for vacancies of rural postmasters?

Mr. MACY. As far as the examining process is concerned there is an investigative component in the examination for postmasters and rural carriers in certain types of cases. Those investigations are conducted by the Civil Service Commission but are not paid for out of the revolving fund because they are a part of the Commission's examining process which is funded out of our Salaries and Expenses appropriation.

Mr. HENDERSON. Part of your own responsibility?

Mr. MACY. Part of our own responsibility. The revolving fund was initially established in 1952, at the time the Civil Service Commission accepted responsibility for the conduct of full field investigations for the Atomic Energy Commission and its contractors. This responsibility had initially been given by Congress exclusively to the FBI. The FBI found the load an excessive one, and the Congress transferred that responsibility to the Civil Service Commission. A revolving fund was established in the supplementary appropriation of that year, 1952, with an initial capital of \$4 million. This legislation would not require an appropriation to increase the amount of that capital.

Mr. GROSS. Mr. Chairman, for clarification, are you saying, Mr. Macy, there is no function you perform for the Post Office Department that is reimbursable to the Civil Service Commission?

Mr. MACY. That is correct. However the Post Office employees probably participate in some of our interagency training, and the Post Office Department would under those circumstances reimburse us for the cost of that training. But we do not conduct—

Mr. GROSS. Programs or projects?

Mr. MACY. Right, sir.

Mr. HENDERSON. Thank you.

Mr. MACY. I would now like to explain the differences between revolving fund financing and our current method of treating reim-

bursements, and more importantly how H.R. 16558 will serve to improve internal financial management in the Commission.

First of all however, let me assure this committee that the Commission is in no way attempting to use this proposed legislation as a device for financing new programs, or any program for that matter, on a reimbursable basis. Our position on this matter is simply this—once the Congress has authorized or required the Commission to perform a function on a reimbursable basis, then we feel that revolving fund financing is the most effective method of financing that function. We are seeking here only to improve internal financial management, not to become involved in how Government programs should be funded.

At the present time, the costs of most of our reimbursable work, except for the full field investigations I referred to earlier, are financed directly from the Commission's salaries and expenses appropriation. These costs are then recovered from the agencies for whom we perform the services and credited as a reimbursement to the appropriation. There are several limitations and disadvantages, however, to this method of financing through an appropriation account that revolving funding financing would overcome. These are principally:

Leadtime expenses such as developmental costs for new training programs cannot be spread over a period of years but must be charged off and recovered in the fiscal year in which they were incurred. This results in disproportionately high costs in 1 year and low in subsequent years. In that connection, I would like to direct the attention of this committee to House Report 1159, 90th Congress, second session, from the Committee on Government Operations which recommended revolving fund financing for reimbursable training programs conducted by the Commission.

Recognition cannot be given to the value of inventory or work-in process carried over from 1 fiscal year to the next. Our charges to agencies for whom we perform services are therefore strictly on the basis of obligations incurred in any given fiscal year instead of true costs for the units of work produced.

Capital outlays such as for purchases of furniture or equipment must be recovered in the fiscal year of acquisition instead of amortizing such costs over the period of useful life of the property. This also results in distorted costs of operation as well as in our charges to agencies for services rendered.

These deficiencies can be remedied by H.R. 16558 and the revolving fund method of financing will enable our accounting system to produce true costs of operation, without the impediment of fiscal year limitation, for use internally as well as for billing agencies for services performed. This together with other reforms we are making in a complete overhaul of our accounting system effective July 1, 1968, will make it possible to achieve the financial management improvement goals we have set for ourselves in the Civil Service Commission.

Up to this point my remarks have been directed primarily to reimbursable services performed for other agencies. I would now like to comment briefly on the in-house common services that are also proposed to be financed through the revolving fund, because the advantages of revolving-fund financing apply equally as well to these items.

At the present time we contemplate only two specific items, although in future years there may be other areas that would also lend themselves to revolving-fund financing. These are:

- (1) In-house printing and reproduction services, and
- (2) In-house automatic data processing services.

Both of these items are centralized services available to all Commission offices and activities. Concurrent with the installation of cost-based budgeting techniques for internal financial management in the Commission effective July 1, 1968, we propose to charge our operating program managers with the cost of printing and ADP services that they have requested. These charges will be placed against the allotments and appropriations of the Commission that finance the various operating programs. Revolving fund financing for these two central services will permit true cost accounting and will enable us to operate the printing plant and the data processing center in a much more business-like fashion.

Now I would like to make two final points.

(1) That each and every activity or function financed through the revolving fund will be managed on actual cost basis with a "break even" concept over a reasonable period of time, and

(2) that there will be complete disclosure of the results of operations for each activity in the budget schedules transmitted to the Congress annually.

Both of these points were included in the comments that were made on the proposed bill by the Comptroller General. We feel that both of these suggestions are valuable additions to the bill and we would recommend they be incorporated in what is proposed here.

That concludes my general statement, Mr. Chairman, and now we will be pleased to answer any questions you or other members of the committee may have.

I might just add one further point. This method of financing has been discussed this year with both the House and Senate Appropriations Subcommittees before which the Commission appears, and in both instances the Commission has been led to believe by the chairmen of those committees that they are supportive of this method of financing as an improvement in the Commission's financial management.

Initially, it was our view that the legislative action for the expansion of the fund would be achieved through the appropriations route. However, we were subsequently advised that it more appropriately should come before your committee as the responsible substantive committee with respect to the Commission's activities. This uncertainty as to the appropriate parliamentary route is one of the reasons for delay in offering this proposal this year.

Mr. HENDERSON. Thank you, Mr. Chairman. This leads me to the first question I wanted to ask. It pertains to the second of your two final points.

You advise us that you will make disclosures of the results of the operation, but in your opinion which committee of the House would have the oversight responsibility? Would it be the Appropriations Subcommittee that you go before annually, or would it be Government Operations or would you look to the Post Office and Civil Service Committees?

Mr. MACY. We would look to the Post Office and Civil Service Committees. We would make this information available to the Appropriations Committee if they desired to have it.

Mr. HENDERSON. The reason I asked that, if this would be most logically the responsibility of our committee and in turn this subcommittee, I think that a statement to that effect could well be placed in the report and put in as a matter of record as to our responsibility as well as to the other congressional committees.

Mr. MACY. I believe that would be desirable.

Mr. WILLIAMS. You understand, Mr. Chairman, that the schedules we speak of will appear in the President's budget. So those undoubtedly would go before the Appropriations Committee.

Mr. HENDERSON. Very appropriately they would be interested in what your financial operations each year would be.

Mr. WILLIAMS. This is true.

Mr. MACY. In fact, this would make it possible for us to give a far more accurate picture of just what these operations are than is possible under the present arrangement.

Mr. WILLIAMS. It might be well to point out that the bill itself provides that no activity can be financed through the fund without the Congress having been notified in advance of the proposal by covering it in the budget estimates.

Mr. HENDERSON. Mr. Chairman, you mentioned that your statutory authority for the revolving fund is limited to \$4 million. Do you think that you need additional authority than that?

Mr. MACY. No, sir; that will be adequate to meet our needs. We find that most of the costs of our reimbursable activities are recovered within 90 days. So this appropriation for capital is adequate to meet the expanded use of the revolving fund that is proposed in this legislation. No additional appropriation for capital funding is required in this proposal.

Mr. HENDERSON. If it were not sufficient in the future, it would be necessary for you to ask for statutory authority?

Mr. MACY. Yes. We would have to come back to you to justify a change in the appropriated capital.

Mr. GROSS. Mr. Chairman, would you yield at that point?

Mr. HENDERSON. I would be delighted to.

Mr. GROSS. Is there a limitation in this bill?

Mr. MACY. There is a limitation on the appropriated capital in the 1952 bill of \$4 million. In this bill there is no proposal to increase that appropriated amount.

Mr. SPECK. H.R. 16558 does indicate what the capital of the fund should consist of. I think the Chairman's point is we don't need additional appropriations as working capital.

Mr. GROSS. I understand, but there is no limitation in this bill as to the size of the fund.

Mr. SPECK. The bill says, Mr. Gross, that appropriations made for the purpose of providing capital are available in this fund. So in that sense there is a limitation.

Mr. WILLIAMS. The appropriation limitation is \$4 million.

Mr. GROSS. If you say \$4 million is sufficient, then why not write a limitation in the bill?

Mr. MACY. The limitation on appropriation is in the legislation at the present time.

Mr. WILLIAMS. It is in the legislation which set up the revolving fund as a financial instrument through which the Commission carries on the full field investigations.

Mr. HENDERSON. If our report indicates that there is no effect upon the statutory limitation and that it would remain at the \$4 million level, then you would have to have additional legislative authority to obtain more than the \$4 million.

Mr. WILLIAMS. Yes, if additional appropriation is required.

Mr. MACY. We feel that is proper, that it should be necessary for us to come back for a statutory authorization if the capital for the revolving fund is to be increased by additional appropriations.

Mr. HENDERSON. I am a little bit confused perhaps with regards to your own in-house reimbursable services for in-house printing and reproduction services and the ADP services.

Do you feel that a separate fund for these in-house operations would work just as well as using the revolving fund?

Mr. MACY. Let me ask Mr. Williams to elaborate on how this system would operate.

Mr. WILLIAMS. I think you come back to the same general concept, Mr. Chairman. In effect, you almost need a second revolving fund to accomplish the basic purpose. The same reasons that apply to why revolving fund financing is good for financing things we do for other agencies, apply also to the things we do on a centralized basis within the Civil Service Commission. We are talking roughly about a \$1.4 million worth of in-house centralized services that we perform.

Mr. HENDERSON. So, if you separated these two for accounting purposes, it would be necessary for the legislation to authorize—

Mr. WILLIAMS. The same benefits, a separate fund.

Mr. HENDERSON. So what you are proposing is to use the present \$4 million capital fund and just have one accounting system for both in-house and out of house?

Mr. WILLIAMS. Yes. Under the stated proposition that each individual activity financed through the fund is going to be accounted for separately. There will be no comingling of the funds. Nor would there be use of funds acquired from one source for another purpose.

Mr. HENDERSON. And you can assure us that your reports to Congress will clearly identify what your operations in-house have been as well as for the other agencies?

Mr. WILLIAMS. No question about that.

Mr. HENDERSON. As I understand it, the current statute requires that any surplus remaining in the revolving fund be paid into the Treasury as miscellaneous receipts during the following fiscal year.

The proposed substitution only requires that any surplus that you determine is in excess of the amounts needed for your operations would be deposited with the Treasury. Would you comment on that?

Mr. WILLIAMS. Yes, sir. This is to meet a problem which we continually face, and that is to be able to shut off as of June 30, the end of a fiscal year, completely in balance or with a black balance—the problem of operating without running into a deficit. Under our current system, of course, we are bound by annual appropriations; we are subject to being cited to the House and the Senate for over obligations.

If we take the training situation, for example, we do in the neighborhood of \$3½ million to \$4 million of reimbursable training. This

training is conducted in 11 different places, 10 regional offices and the central office, made up of a great variety of training programs.

In advance we speculate as to how many people will be participating in these courses. We set a price which we think is going to be reasonable in terms of what it is going to cost us. It is difficult to estimate.

Toward the end of the year it gets to be extremely difficult to be sure that we are maintaining a balance between the amount that we are expending for the conduct of these training courses and the amount of revenue that we are going to acquire from them in terms of the number of people attending and paying the tuition charge that has been established. It gets to be an extremely difficult thing, to a point where almost on a day-to-day basis we have to be aware of the number of people who are attending on-going programs and the amount of money we are spending for the salary of our people as well as for the instructors we bring in to conduct these training courses. At times we have just run a day-to-day accounting system for this purpose so that we do not run into a red balance and thereby have to cite our operating program officials, who, you know, on a completely unintentional basis have spent more than the amount of income ultimately realized.

Mr. HENDERSON. The Chairman testified that it is your intention to make the cost of the services as near to their actual cost as you can. Let's assume that you overcharged in one instance and acquired, as a result of that, a surplus. You, then would reduce your prices in the future to balance off that overcharge rather than pay it into miscellaneous receipts of the Treasury?

Mr. WILLIAMS. This is exactly the point.

Mr. HENDERSON. So, in order for us to have the proper oversight on exactly what you are doing, we would need to look at it over a period of 2 or 3 years?

Mr. WILLIAMS. I would say so. There is no purpose in retaining an excessive amount of money because it can't be used for any other purpose.

Mr. HENDERSON. We don't want as an objective that you charge other Government agencies an amount that would in a sense make a profit, which profit would be turned into the Treasury.

Mr. WILLIAMS. There is no purpose to this.

Mr. MACY. That is why we feel it is important that we do have the accounting system to keep track of each enterprise that is covered by the revolving fund and that we report on this annually.

Mr. GROSS. There are always SP's, Mr. Chairman, sales participation certificates.

Mr. MACY. That is beyond the scope of the Commission's responsibility.

Mr. HENDERSON. I think that is all I have right now.

Mr. GROSS.

Mr. GROSS. I noticed you are doing something at Kings Point, a seminar of some kind. What is that, a training seminar?

Mr. MACY. Yes, under section 8 of the Training Act, we have been running executive seminar centers.

Mr. GROSS. Is that at the Merchant Marine Academy?

Mr. MACY. We are housed at the Merchant Marine Academy. We use their property as the location for our executive seminar center.

Mr. GROSS. Executive seminar center?

Mr. MACY. This is a 2-week seminar program which we give at Kings Point and at Berkeley for executives and professionals largely in grades 13, 14, and 15 to the number of about 1,300 a year. You have your distinguished subcommittee counsel, Bun B. Bray, Jr., as one of the members of the faculty of that institution. He is one of our outstanding lecturers in that program at Kings Point.

Mr. GROSS. Of this particular subcommittee?

Mr. MACY. Of this particular subcommittee.

Mr. GROSS. I am pleased to hear that he is in such demand.

Mr. MACY. He has been very helpful, Mr. Gross, in that he has been able to bring to these executive branch people a better understanding of the legislative process and the desires of Members of Congress from the executive establishment.

Mr. GROSS. They are able to hold orderly seminars in Berkeley these days?

Mr. MACY. Yes. They observe the disorder from across the street.

Mr. GROSS. You speak of purchases of furniture or equipment. What would this be for?

Mr. MACY. This would be furniture and equipment for an operation such as Kings Point and Berkeley. When such an institution is established, it is necessary to purchase capital items of that nature, and under the present reimbursable arrangement to recover that full cost during the fiscal year of acquisition rather than do as a business would do, namely, amortize that cost over the life of the equipment.

Mr. GROSS. On page 5 of your statement, Mr. Macy, you say it will be managed on an actual cost basis with a break-even concept over a reasonable period of time. Who determines that, the Civil Service Commission?

Mr. MACY. The Civil Service Commission will determine that. Of course, this will be audited by the Comptroller General as are other accounts of the Commission.

Mr. GROSS. That is the question I wanted to ask you. Is there provision in this bill for an accounting by the Comptroller General?

Mr. MACY. Not precisely, but the Comptroller General has that responsibility with respect to all accounts, and financial activities of the executive branch.

Mr. GROSS. You would not be opposed to it if the bill was amended to include that?

Mr. MACY. No, sir. The Comptroller General agrees with us that this approach represents an improvement in financial management.

Mr. GROSS. What is the attitude of the General Accounting Office to this approach?

Mr. MACY. They have filed a formal report with the chairman of the full committee, Mr. Dulski, indicating two suggestions for change which we support, and with those two changes they are supportive of the legislation.

Mr. HENDERSON. Without objection I will ask that the General Accounting Office report follow the other reports in the record.

Mr. WILLIAMS. You may be interested in knowing, Mr. Gross, that we have in the civil service been building a group of resident GAO auditors who are constantly reviewing Commission activities right across the board.

Mr. MACY. We have accounts, for example, of some substantial size in the trust funds for retirement and insurance as well as in our salaries and expenses appropriation work.

Mr. GROSS. Did the Bureau of the Budget recommend this approach?

Mr. MACY. Yes, sir. The Bureau of the Budget has been after us for 2 or 3 years to move on with this; so, this is clearly responsive to their wishes.

Mr. GROSS. Speaking of the equipment that you mention on page 5, that would be acquired without congressional approval but later the expenditure would be subject to congressional approval?

Mr. WILLIAMS. It would be reflected in our statements that we would be filing with the Appropriations Committee and with your committee as to the items of expenditure and the levels of expenditure by object class.

Mr. GROSS. So all of this information, of course, would be made available eventually to the Appropriations Committee. Do you do this now?

Mr. MACY. Yes, we do this now under the reimbursable arrangement, but the difficulty is that it is necessary for us to compute our charges to the agencies that are using our services to cover the full cost of that equipment in 1 year, whereas under the revolving fund approach we can amortize this over the life of the equipment in the same manner in which a business would do it.

Mr. GROSS. You might have \$4,500,000 in this fund?

Mr. MACY. We would be handling amounts ranging up to about \$20 million through the fund, but the corpus of the fund, the appropriated capital of the fund would not exceed \$4 million.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. HENDERSON. Mr. White.

Mr. WHITE. Mr. Macy, I guess I represent the great masses of laymen who may not entirely understand the workings of your department; therefore, I need to ask some questions in order to comprehend the scope.

Mr. MACY. I will be happy to try to answer them.

Mr. WHITE. As I understand, your department performs services to other agencies in perhaps analyzing their personnel problems and other types of operations.

Mr. MACY. Basically, the services that we are performing that relate to this revolving fund are in two principal categories. One is the conduct of full field investigations of individual employees or applicants which costs \$440 per case for each investigation that we perform. That program runs about \$14 million a year and is financed through the revolving fund that was established by the congressional enactment in 1952.

Mr. WHITE. Let me stop you at that point now.

Do I understand there is a fund existing now?

Mr. MACY. Yes, there is a fund with a capital of \$4 million which was established in 1952. But in the enabling legislation it was restricted to use for the financing of full field investigations. What we are requesting here is an expansion of the use of that fund to take care of other activities that the Commission now pursues where the functions are by law reimbursable by the agencies.

Mr. WHITE. What would those functions be?

Mr. MACY. A variety of them. I mention in my statement, for example, the examinations that we conduct for the Peace Corps. The Commission's examining machinery is used by the Peace Corps to examine those that are applicants for volunteer service.

The Commission conducts certain investigations for the Library of Congress on a reimbursable basis.

Then, there is the conduct of interagency training programs by the Commission as a service to all of the Government agencies under section 8 of the Government Employees Training Act of 1958. That type of training the Commission conducts on really what amounts to a tuition charge basis, and the charges that we have been computing for those courses are based upon reimbursement of obligations incurred within a fiscal year. We believe that we can more efficiently account for that money and in a more businesslike fashion determine our charges if we are able to use the revolving fund method for financing that training.

That total training program is now running about \$6 million a year.

Mr. WHITE. What is the value or estimate of your other activities and investigations other than the \$4 million that you are speaking of? In other words, you want to expand it. What would you say the total of those expansion activities would be?

Mr. MACY. At the present time the investigations program financed under the revolving fund runs about \$14 million per year.

Mr. WHITE. This is including the \$4 million?

Mr. MACY. No, the \$4 million is separate, it is the corpus, that is the capital of the fund. The annual volume of business through the fund for reimbursable investigations is running about \$14 million. Now over and above that the Commission has reimbursable programs that are not now financed through the revolving fund that run to about \$6 million annually, the bulk of which is involved in the training program. Or to be more specific, let me list seven different categories which we would intend to cover under the revolving fund:

Full field investigations, \$14 million;

Training courses, \$3,800,000;

The Executive Seminar Centers which I discussed with Mr. Gross, \$600,000;

The Executive Institute which we are in the process of establishing and won't be operating until 1969, \$900,000; then

Miscellaneous services to agencies like the examining services to the Peace Corps, \$700,000.

These are reimbursed by the agencies out of their own appropriations when they commit themselves to send employees to a particular training program or when they purchase certain services from the Commission.

Mr. WHITE. What happens to that money when it arrives, say, on your books as reimbursement?

Mr. MACY. It reimburses our appropriation which has been spent to provide the particular service at the present time.

We are proposing that the revolving fund be expanded so that those reimbursements will go into the revolving fund. We will price our product and we will receive reimbursement from the agencies according to the established price for the service that we are rendering, either in tuition charges or in payment per case for examining or investigation.

Mr. WHITE. Will your appropriations be reduced accordingly?

Mr. MACY. No, our appropriations will not be affected because at the present time we are replacing in full the funds we have spent by what we receive from the agencies. So, it is a breakeven proposition.

Mr. WHITE. Right now?

Mr. MACY. Right now. All we are saying is this proposed legislation would permit us to perform the financial management in a more businesslike and on a better controlled basis.

Mr. WHITE. Won't that in effect increase your appropriations, then, if you have a revolving fund and your appropriations stay at the same level and you are not using the appropriations for these various training and seminar functions?

Mr. WILLIAMS. We don't use appropriations for that purpose, Mr. White. The use of the salaries and expense appropriations is really an accounting mechanism. There are no funds obtained by the Commission in order to perform reimbursable services.

Mr. WHITE. I thought he said they came out of appropriations?

Mr. MACY. The agencies reimburse the Commission's appropriation for money that is initially put up in order to conduct a training program. We get reimbursed for actual costs.

Mr. WHITE. In other words, each one is earmarked for a particular training program by the Appropriations Committee; is that what I understand?

Mr. MACY. No, it isn't earmarked by the Appropriations Committee. The programs are authorized by Congress in substantive legislation. The agencies elect to use their appropriations to pay for this particular service.

Mr. SPECK. We are now paying the bills, Mr. White, out of our appropriation account.

Mr. WHITE. Then you are taking it from appropriations?

Mr. SPECK. Yes, and then we are collecting the money back. All we are proposing to do really is to spend out of the \$4 million revolving fund capital our day-to-day expenses for doing this work and recovering it and putting it back so that the \$4 million is always kept intact.

Mr. WHITE. What do you do for the operation of your agency when you have expended this money for programs?

Mr. SPECK. We have authorization from the Bureau of the Budget to spend in anticipation of collecting for the costs that we have incurred. That is authorized in what we call the apportionment process. So we are authorized to spend in excess of the amount appropriated in anticipation of recovering the costs of doing the reimbursable work.

Mr. WHITE. One thing that concerns me a little bit. I think there could be a hidden waste operation in this respect.

You spoke of having this revolving fund and you have a ceiling of \$4 million.

If you are going to exceed your \$4 million, then you would extend your services at this cost or perhaps minimal cost in order to avoid crowding the ceiling; is this what I understood you to say?

Mr. HENDERSON. Would the gentleman yield a moment?

Mr. WHITE. Yes.

Mr. HENDERSON. I don't believe there was a ceiling of \$4 million, it was a capital investment.

Suppose you and I were going into the hotdog business and we decided to put in \$15. We would start selling hotdogs. There would be times when we had a hundred dollars in there but we hadn't paid for the wieners. Then we would pay our debts and we would get some profit each year. They told me that they don't anticipate any profit. There would be times when they would draw down their \$4 million. They would never need any more capital investment, as they anticipate it, other than that \$4 million, but there would be times in which they would have obligations from agencies or actual payins that would exceed that and then it would go back up.

Mr. MACY. Yes.

Mr. SPECK. The word revolving fund means in and of itself that that \$4 million turns over four or five times a year. We can do \$20 million worth of business a year out of \$4 million working capital.

Mr. WHITE. What you are saying is you never intend to extend the services of your agency at less than value?

Mr. SPECK. That is right.

Mr. MACY. That is right. Nor do we intend to go beyond the authorized appropriation as a result. This is a new method of handling existing authorized programs and funding.

Mr. WHITE. That is all, Mr. Chairman.

Mr. HENDERSON. Mr. Hamilton.

Mr. HAMILTON. What are the cost implications of this bill? Will it cost us any more?

Mr. MACY. No.

Mr. HAMILTON. Are you going to save any money?

Mr. MACY. I think the savings are insignificant. What is involved is better control over the funds, particularly coupled with the new accounting system that we are in the process of installing which is cost based.

Mr. HAMILTON. The net impact of this bill, if enacted, is zero as far as expenditures of the Government are concerned?

Mr. MACY. It permits us to better control the funds that are available.

Mr. HAMILTON. If the bill is not enacted, what kind of difficulties would you incur?

Mr. MACY. We will continue to have the difficulties that Mr. Williams cited in handling this through our annual appropriation account with the complication of maintaining our accounts and determining our costs.

Mr. HAMILTON. That is a very inefficient procedure.

Mr. MACY. Right. This new proposal is a means of increasing our efficiency in handling the accounts that are necessary in this type of transaction.

Mr. HAMILTON. So there is a cost saving, then, by reason of the efficiency that is brought about in your operation and in your employment of manpower.

Mr. MACY. Exactly.

Mr. HAMILTON. Now, the two suggestions you make on page 5, the break-even concept and the disclosure, they are not in this bill as drafted, H.R. 16558, are they?

Mr. MACY. No, they are not.

Mr. HAMILTON. The General Accounting Office on line 14, page 4, would strike out the period after the word "year" and add the following language "and to the maximum extent feasible each individual activity shall be conducted generally on an actual cost basis over a reasonable period of time."

That language is acceptable to you?

Mr. MACY. That is entirely acceptable to us.

Mr. HAMILTON. That takes care of your break-even concept?

Mr. MACY. That incorporates it in the statute program by program.

Mr. HENDERSON. Mr. Macy, would you have any objection if we considered putting in a requirement that the General Accounting Office report to us annually on the operation of this? We would not do so without consulting with your people and their people first as to the necessity and the language.

Mr. MACY. No problem at all.

Mr. HENDERSON. I think it might help us as we proceed with the legislation to have this clearly in the bill, Mr. Hamilton, as a further amendment.

Mr. HAMILTON. That would be in addition to his suggestion in the testimony on page 5.

Mr. HENDERSON. I would like for us to consider that when we go into executive sessions.

For the benefit of the members, as quickly as I can, we will call an executive session for this bill and the Dulski bill. We don't have a quorum this morning, and we have to have one for the executive session.

Mr. MACY. I believe, Mr. Hamilton, there was a second amendment that was involved.

Mr. HAMILTON. Right.

Mr. MACY. I have language here which I would be happy to read into the record if that would be helpful.

This covers the second point made by the Comptroller General, and it would amend the bill to require that "The Commission prepare a business type budget providing full disclosure of the results of operations for the individual activities under the revolving fund and that such budget be transmitted to Congress and considered in the same manner prescribed by law for wholly-owned Government corporations (sections 102, 103, 104 of the Government Corporation Control Act, 31 U.S.C. 847-849)."

Mr. GROSS. You are suggesting that as an amendment?

Mr. MACY. Yes, to carry out the second point raised by the Comptroller General in his letter to the chairman.

Mr. HAMILTON. Thank you.

The other question I have pertains to the language right at the end of the bill on page 3. It states that "Any unobligated and unexpended balances in the fund which the Commission determines to be in excess of amounts needed for operations financed by the fund shall be deposited in the Treasury of the United States to miscellaneous receipts."

Wherein is that different from what the law now is?

Mr. WILLIAMS. As it is now, we must attempt to break even, in effect, as of June 30. At that point in time—

Mr. HAMILTON. If you have an excess, what do you do?

Mr. WILLIAMS. We turn it over to the Treasury Department miscellaneous receipts. We cannot carry a surplus.

What we find in many of our work items, and we are experiencing this right now in the investigations program, is that the work comes in peaks and valleys. We have recently been in a valley, which was predictable because we know from experience this is the way cases come in. The Peace Corps, for example, gives us about a third of our total workload for full field investigations. But the work is highly seasonal. For the last 2 months we have been in a low period, but because we have to break even on money at the end of the year we have been forced to raise case costs to agencies for a 2-month—3-month period so that our expenses and our income meet. This really doesn't make sense because the agencies have to budget for the amount of money they expect to reimburse us each year for full field investigations.

On the other hand we are right now experiencing, as we knew we would, an increase in cases. Within 2 months, as the cycle of processing cases completes itself, our case costs will be going down. We will be in a position then of reducing our billing rate to agencies. What we are trying to accomplish here, you see, is an elimination of the June 30 break-even proposition and be able to level these case costs off for the benefit of the agencies and for the benefit of good intelligent business management to a point where we don't have to raise costs or decrease costs on short notice. This will keep the agencies in a better sense of balance.

Mr. SPECK. It is a matter of timing.

Mr. HAMILTON. By having this extra authority you will not have to raise your costs at the end of the year to break even?

Mr. WILLIAMS. That is correct.

Mr. HAMILTON. This extra authority will permit you to save a little money, right?

Mr. WILLIAMS. It may; yes, sir. It may actually produce efficiencies by having the flexibility to do this.

Mr. HAMILTON. I think that is all.

Mr. GROSS. Mr. Chairman, could I ask one more question?

Mr. WHITE (presiding). Yes.

Mr. GROSS. First of all, I want to commend you for that amendment you propose; the last one.

Mr. MACY. Does that take care of the point you have in mind?

Mr. GROSS. Yes; I think so. Of course, it is something you would have to do anyway if you went before the Appropriations Committee; would you not?

Mr. MACY. Yes.

Mr. GROSS. You would have to pull this together in approximately that fashion.

Mr. MACY. I think that amendment underscores one of the benefits of this proposed legislation that I perhaps haven't adequately described, and that is, it would give a better accounting to the Congress and to the public with respect to the actual cost of some of these services that we are rendering other agencies.

Mr. GROSS. That is right.

Mr. WILLIAMS. We do that now, incidentally, Mr. Gross, in connection with the current revolving fund through which we finance

full field investigations. We do submit a business-type budget statement as required, and it provides a very full disclosure of the operations of the investigations program in terms of what we spend, what we spend it for, what our income is, and where we got the income. There is a business-type profit and loss statement that we currently are required to submit because we have a revolving fund through which we finance the full field investigations. We will submit the same type of statements for every individual program we finance through the expanded revolving fund.

Mr. GROSS. Will this require an additional input of funds?

Mr. MACY. No, sir. We will use the appropriated capital that is in the fund at the present time.

Mr. GROSS. And this legislation is not expected to be used as a springboard, simply because you have a revolving fund, for more training programs, expanded programs operated by the Civil Service Commission?

Mr. MACY. No. This in and of itself assists us in better managing the reimbursable programs we have now. This is not an enlargement of program proposal at all.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. WHITE. One other question, Mr. Macy.

I presume you have talked to the members of the Appropriations Committee concerning this particular bill?

Mr. MACY. We have testified with respect to the purposes of this bill before both the House and Senate Appropriations Subcommittees, and in each instance the chairman has indicated a cordial response to what has been proposed.

Mr. WHITE. Thank you very much.

There being no other witnesses, the meeting is adjourned.

(Whereupon, at 11:08 a.m., the subcommittee was adjourned.)

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